

CITY OF MONTROSE

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2005

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City of Montrose

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald L. Dinwiddie	Mayor	January 1, 2006
Judith Brisby	Council Member	January 1, 2006
Mark Holland	Council Member	January 1, 2006
Jeff Junkins	Council Member	January 1, 2008
Cathy Roberts	Council Member	January 1, 2006
Melody Slater	Council Member	January 1, 2008
Celeste Cirinna	City Clerk/Treasurer	Appointed
Robert N. Johnson III	Attorney	Appointed



Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Montrose, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Montrose, Iowa as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Montrose' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Montrose as of June 30, 2005, and the respective changes in cash basis financial position for the year ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated December 28, 2005 on my consideration of the City of Montrose' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Budgetary comparison information on page 15 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

The City of Montrose, Iowa has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montrose's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

Ann M Menke

Ann M. Menke
Certified Public Accountant
Professional Corporation
December 28, 2005

City of Montrose
Statement of Activities and Net Assets - Cash Basis
For the Year Ended June 30, 2005

		Program Receipts		
		Charges for	Operating Grants	Capital Grants
	Disbursements	Service	and Restricted	and Restricted
			Interest	Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 84,227	\$ 2,173	\$ -	\$ -
Public works	128,861	37,496	89,772	-
Culture and recreation	83,172	16,549	1,120	-
Community and economic development	519	-	-	-
General government	44,662	1,869	-	-
Total governmental activities	341,441	58,087	90,892	-
Business type activities				
Water	68,652	62,299	-	-
Sewer	231,926	120,049	-	178,044
Total business type activities	300,578	182,348	-	178,044
Total	\$ 642,019	\$ 240,435	\$ 90,892	\$ 178,044
General Receipts:				
Property tax levied for:				
General purposes				
Grants and contributions not restricted to specific purpose				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Sewer				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (82,054)	\$ -	\$ (82,054)
(1,593)	-	(1,593)
(65,503)	-	(65,503)
(519)	-	(519)
(42,793)	-	(42,793)
<u>(192,462)</u>	<u>-</u>	<u>(192,462)</u>
-	(6,353)	(6,353)
-	66,167	66,167
-	59,814	59,814
<u>(192,462)</u>	<u>59,814</u>	<u>(132,648)</u>
101,650	-	101,650
14,366	-	14,366
68,606	-	68,606
6,652	275	6,927
29,169	-	29,169
-	-	-
<u>220,443</u>	<u>275</u>	<u>220,718</u>
27,981	60,089	88,070
346,528	89,442	435,970
<u>\$ 374,509</u>	<u>\$ 149,531</u>	<u>\$ 524,040</u>
374,509	33,120	33,120
374,509	116,411	490,920
<u>\$ 374,509</u>	<u>\$ 149,531</u>	<u>\$ 524,040</u>

See notes to financial statements.

City of Montrose
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2005

	General	Special Revenue Road Use Tax	Other Non Major Governmental Fund	Total
Receipts				
Property tax	\$ 101,650	\$ -	\$ -	\$ 101,650
Other city tax	71,738	-	-	71,738
Licenses and permits	1,869	-	-	1,869
Use of money and property	15,373	-	-	15,373
Intergovernmental	3,647	89,772	-	93,419
Charges for services	49,428	-	969	50,397
Miscellaneous	34,976	-	-	34,976
Total receipts	<u>278,681</u>	<u>89,772</u>	<u>969</u>	<u>369,422</u>
Disbursements				
Operating:				
Public safety	84,227	-	-	84,227
Public works	50,710	78,151	-	128,861
Culture and recreation	83,172	-	-	83,172
Community and economic development	519	-	-	519
General government	44,662	-	-	44,662
Total disbursements	<u>263,290</u>	<u>78,151</u>	<u>-</u>	<u>341,441</u>
Net change in cash balances	15,391	11,621	969	27,981
Cash balances beginning of year	<u>294,818</u>	<u>18,292</u>	<u>33,418</u>	<u>346,528</u>
Cash balances end of year	<u>\$ 310,209</u>	<u>\$ 29,913</u>	<u>\$ 34,387</u>	<u>\$ 374,509</u>
Cash Basis Fund Balances				
Unreserved				
General fund	310,209	-	-	310,209
Special revenue fund	-	29,913	-	29,913
Permanent fund	-	-	34,387	34,387
Total cash basis fund balances	<u>\$ 310,209</u>	<u>\$ 29,913</u>	<u>\$ 34,387</u>	<u>\$ 374,509</u>

See notes to financial statements.

City of Montrose
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the Year Ended June 30, 2005

	Enterprise Funds			Total
	Water	Sewer Rental	Other Non-Major Proprietary Funds	
Operating receipts:				
Charges for services	62,299	117,884	2,165	182,348
Total receipts	62,299	117,884	2,165	182,348
Operating disbursements:				
Business type activities	68,652	187,947	1,291	257,890
Total operating disbursements	68,652	187,947	1,291	257,890
(Deficiency) excess of operating receipts (under) over operating disbursements	(6,353)	(70,063)	874	(75,542)
Non-operating receipts (disbursements)				
Intergovernmental	-	178,044	-	178,044
Interest income	-	-	275	275
Debt service	-	(42,688)	-	(42,688)
Total non-operating receipts (disbursements)	-	135,356	275	135,631
(Deficiency) excess of receipts (Under) over disbursements	(6,353)	65,293	1,149	60,089
Operating transfers in	-	42,688	50,016	92,704
Operating transfers out	-	(50,016)	(42,688)	(92,704)
Net change in cash balances	(6,353)	57,965	8,477	60,089
Cash balances beginning of year	60,148	(7,879)	37,173	89,442
Cash balances end of year	\$ 53,795	\$ 50,086	\$ 45,650	\$ 149,531
Cash Basis Fund Balances				
Reserved for debt service	-	-	23,930	23,930
Reserved for maintenance and repairs	-	-	9,189	9,189
Unreserved	53,795	50,086	12,531	116,412
Total cash basis fund balances	\$ 53,795	\$ 50,086	\$ 45,650	\$ 149,531

See notes to financial statements.

City of Montrose
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Montrose is a political subdivision of the State of Iowa located in Lee County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens. The population of Montrose was 957 according to the 2000 census.

A. Reporting Entity

For financial reporting purposes, the City of Montrose has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Montrose has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all of the nonfiduciary activities of the City. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees or charges for services.

The Statement of Activities and Net Assets – Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

City of Montrose
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets – Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Rental Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

City of Montrose
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

The City of Montrose, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, general government, and debt service functions.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The city did not have any funds invested in a security considered to be an investment by the Code of Iowa as of June 30, 2005.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Montrose
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 3– BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bond	
	Principal	Interest
2006	\$ 25,000	\$ 16,550
2007	25,000	15,813
2008	25,000	15,075
2009	30,000	14,337
2010	30,000	13,453
2011 - 2015	160,000	51,575
2016 - 2020	<u>150,000</u>	<u>16,960</u>
Total	<u>\$445,000</u>	<u>\$143,763</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, the City paid the bond principal and interest payments from the Sewer Fund.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$12,740, equal to the required contributions for the year.

NOTE 5 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Unused vacation hours are paid upon termination, retirement, or death. Employees accumulate sick leave up to a maximum of 90 days. If not used this sick leave is lost upon termination, retirement, or death. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2005, is \$1,748 and \$14,636 respectively. This liability has been computed based on rates of pay as of June 30, 2005.

City of Montrose
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 6 – RISK MANAGEMENT

The City of Montrose is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – OUTSTANDING OBLIGATION

The City of Montrose collects fees from its water and sewer utility customers that are to be remitted to Great River Regional Waste Authority. During the fiscal year, the council voted to stop remitting the fees until the results of the Authority's re-audit by the Iowa State Auditor are released due to questionable business practices on the part of the Authority's management. As of June 30, 2005 the city owed \$8,423 for such fees. That amount has increased to \$17,068 as of the date of this report.

REQUIRED SUPPLEMENTARY INFORMATION

City of Montrose
Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	\$ 101,650	\$ -	\$ 101,650
Other city taxes	71,738	-	71,738
Licenses and permits	1,869	-	1,869
Use of money and property	15,373	275	15,648
Intergovernmental	93,419	178,044	271,463
Charges for services	50,397	182,348	232,745
Miscellaneous	34,976	-	34,976
Total receipts	<u>369,422</u>	<u>360,667</u>	<u>730,089</u>
Disbursements			
Public safety	84,227	-	84,227
Public works	128,861	-	128,861
Culture and recreation	83,172	-	83,172
Community and economic development	519	-	519
General government	44,662	-	44,662
Debt service	-	42,688	42,688
Business type activities	-	257,890	257,890
Total disbursements	<u>341,441</u>	<u>300,578</u>	<u>642,019</u>
Excess of receipts over disbursements	27,981	60,089	88,070
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	27,981	60,089	88,070
Balance, beginning of year	<u>346,528</u>	<u>89,442</u>	<u>435,970</u>
Balance, end of year	<u><u>\$ 374,509</u></u>	<u><u>\$ 149,531</u></u>	<u><u>\$ 524,040</u></u>

Budgeted Amounts		Final to Net Variance
Original	Final	
\$ 96,036	103,110	(1,460)
75,474	71,400	338
1,000	1,000	869
4,200	4,200	11,448
201,324	92,918	178,545
232,350	409,724	(176,979)
17,000	3,200	31,776
<u>627,384</u>	<u>685,552</u>	<u>44,537</u>
65,233	85,062	835
156,031	156,031	27,170
77,260	77,260	(5,912)
-	1,000	481
43,247	43,247	(1,415)
-	-	(42,688)
285,613	343,781	85,891
<u>627,384</u>	<u>706,381</u>	<u>64,362</u>
-	(20,829)	(19,825)
-	20,829	20,829
-	-	1,004
596,001	403,315	(32,655)
<u>\$ 596,001</u>	<u>\$ 403,315</u>	<u>\$ (31,651)</u>

See accompanying independent auditor's report.

City of Montrose
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$78,997. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, general government, and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

City of Montrose
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2005

	Cemetery	Total
Receipts		
Charges for services	\$ 969	\$ 969
Total receipts	<u>969</u>	<u>969</u>
Net change in cash balances	969	969
Cash balances beginning of year	<u>33,418</u>	<u>33,418</u>
Cash balances end of year	<u><u>\$ 34,387</u></u>	<u><u>\$ 34,387</u></u>
Cash Basis Fund Balances		
Permanent fund	<u>34,387</u>	<u>34,387</u>
Total cash basis fund balances	<u><u>\$ 34,387</u></u>	<u><u>\$ 34,387</u></u>

See accompanying independent auditor's report.

City of Montrose
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the Year Ended June 30, 2005

	Sewer Debt Service	Sewer Depreciation	Sewer Reserve	Utility Deposits	Total
Receipts					
Use of money and property	\$ 213	\$ 21	\$ 41	\$ -	\$ 275
Charges for services	-	-	-	2,165	2,165
Total receipts	<u>213</u>	<u>21</u>	<u>41</u>	<u>2,165</u>	<u>2,440</u>
Disbursements					
Operating:					
Public works	-	-	-	1,291	1,291
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,291</u>	<u>1,291</u>
Excess (deficiency) of receipts over (under) disbursements	213	21	41	874	1,149
Other financing sources (uses)					
Operating transfers in	46,608	2,124	1,284	-	50,016
Operating transfers out	(42,688)	-	-	-	(42,688)
Total other financing sources	<u>3,920</u>	<u>2,124</u>	<u>1,284</u>	<u>-</u>	<u>7,328</u>
Net change in cash balances	4,133	2,145	1,325	874	8,477
Cash balances beginning of year	<u>19,797</u>	<u>2,432</u>	<u>3,287</u>	<u>11,657</u>	<u>37,173</u>
Cash balances end of year	<u>\$ 23,930</u>	<u>\$ 4,577</u>	<u>\$ 4,612</u>	<u>\$ 12,531</u>	<u>\$ 45,650</u>
Cash Basis Fund Balances					
Unreserved	<u>23,930</u>	<u>4,577</u>	<u>4,612</u>	<u>12,531</u>	<u>45,650</u>
Total cash basis fund balances	<u>\$ 23,930</u>	<u>\$ 4,577</u>	<u>\$ 4,612</u>	<u>\$ 12,531</u>	<u>\$ 45,650</u>

See accompanying independent auditor's report.

City of Montrose
Schedule of Indebtedness
For the Year Ended June 30, 2005

	General Obligation Sewer Improvement Bonds
Date of issue	March 1, 2004
Interest rates	2.95% to 4.5%
Amount originally issued	\$ 470,000
Balance, beginning of year	470,000
Issued during year	-
Redeemed during year	<u>25,000</u>
Balance, end of year	<u><u>\$ 445,000</u></u>
Interest paid	17,288
Interest due and unpaid	<u>\$ -</u>

See accompanying independent auditor's report.

City of Montrose
Bond Maturities
For the Year Ended June 30, 2005

General Obligation Sewer Improvement Bonds, Series 2004
Issued March 1, 2004

Year Ending June 30,	Interest Rates	Amount
2006	2.95%	25,000
2007	2.95%	25,000
2008	2.95%	25,000
2009	2.95%	30,000
2010	3.20%	30,000
2011	3.40%	30,000
2012	3.60%	30,000
2013	3.70%	30,000
2014	3.85%	35,000
2015	4.00%	35,000
2016	4.20%	35,000
2017	4.30%	35,000
2018	4.40%	40,000
2019	4.50%	40,000
Total		<u>\$445,000</u>

See accompanying independent auditor's report.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Montrose, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Montrose as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated December 28, 2005. My report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004. Except as noted in the Independent Auditor's Report, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Montrose' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Montrose' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not

necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montrose' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Montrose and other parties to whom the City of Montrose may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Montrose during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,

Ann M Menke

Ann M. Menke
Certified Public Accountant
Professional Corporation
December 28, 2005

**City of Montrose
Schedule of Findings
For the Year Ended June 30, 2005**

Part I: Summary of the Independent Auditor's Results:

- A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05

Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts journal, payroll processing and disbursement, and cash disbursements and recording are all done by the same person.

Recommendation – I realize segregation of duties is difficult with a limited number of office employees. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**City of Montrose
Schedule of Findings
For the Year Ended June 30, 2005**

Part III: Other Findings Related to Statutory Reporting:

III-A-05

Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

III-B-05

Certified Budget – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the culture and recreation, general government, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-C-05

Questionable Disbursements – No expenditures for parties, banquets, or other entertainment for employees were noted that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-D-05

Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-05

Business Transactions – No business transactions between the City and City officials or employees were noted.

III-F-05

Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-05

Council Meetings – No transactions were found that I believe should have been approved in the Council minutes but were not.

**City of Montrose
Schedule of Findings
For the Year Ended June 30, 2005**

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-H-05

Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

III-I-05

Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise Fund, Sewer Account. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Enterprise Fund, Sewer Account to the Debt Service Fund, General Obligation Bonds Account for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

III-J-05

Annual Financial Report – The City filed and published the annual financial report by the December 1, 2005 deadline. However, the amounts reported do not reconcile to the general ledger, primarily due to the cemetery fund being excluded from the governmental funds.

Recommendation – The City should include the cemetery funds in the governmental funds column of the annual finance report in the future.

Response – We will make this change for next year.

Conclusion – Response accepted.

City of Montrose

Audit Staff

The audit was performed by:

Ann M. Menke, CPA

Carol Ross, CPA

Betty Thomas, CPA